

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**Medicare Allowed Charges for
Orthotic Body Jackets**



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EXECUTIVE SUMMARY

PURPOSE

To analyze the reasonableness of Medicare allowed charges for orthotic body jackets coded L0430.

BACKGROUND

Medicare covers spinal orthoses only when ordered by a physician. Payments for orthotics are based on a fee schedule. Payments are either the fee schedule rate or the actual charge billed by the supplier, whichever is lower.

In 1999, the OIG reported that although all orthotic devices claimed as code L0430 in 1996 were eligible for some level of Medicare reimbursement, suppliers had upcoded 42 percent of the claims. This study is a follow-on to the 1999 report.

FINDINGS

Medicare Pays More for L0430 Orthotic Body Jackets than Medicaid

On average, in the eight States we reviewed, Medicare rates exceeded the Medicaid rate by 21 percent.

Medicare Often Pays More for L0430 Orthotic Body Jackets than Tricare

For half of the eight States we reviewed, the Medicare reimbursement rate exceeded Tricare (formerly CHAMPUS) rates by an average of 7.4 percent.

Medicare Reimbursement Rates Greatly Exceeded the Prices Suppliers Paid for Orthotic Body Jackets

The Medicare allowed charge, compared to suppliers' costs for code L0430 devices, resulted in a mark-up in cost ranging from 54 percent to 829 percent. Therefore, Medicare's allowed charges for orthotic body jackets sold under Medicare code L0430 may be allowing excessive profits for some suppliers.

We defined mark-up as the difference between the supplier invoice cost and the Medicare allowed charge.

RECOMMENDATION

The Balanced Budget Act of 1997 gave HCFA greater flexibility in determining appropriate reimbursement rates when rates are found to be grossly excessive, deficient, or not inherently reasonable. That inherent reasonableness authority was limited by a provision of the Balanced Budget Refinement Act of 1999. However, we continue to support the need for more reasonable Medicare prices for orthotic body jackets.

Medicare allowed charge resulted in mark-ups which ranged from 54 percent to 832 percent. Such Medicare rates could allow excessively high profits in some instances. Both State Medicaid agencies and Tricare have shown that suppliers will make L0430 orthotic body jackets available to government beneficiaries at lower prices than what Medicare pays.

Therefore, we recommend that HCFA:

determine the appropriateness of Medicare allowed charges for orthotic body jackets and adjust Medicare reimbursement accordingly.

Depending on what HCFA determines to be a reasonable mark-up, Medicare and its beneficiaries could have saved \$14,212 if the mark-up had been limited to 500 percent for the 45 orthotic devices in our sample. If the mark-up had been limited to 100 percent, the savings would have been \$48,174. Projected to the Medicare universe the potential savings would be between \$227,380 and \$770,780.

AGENCY COMMENTS

The Administrator, Health Care Financing Administration commented on our draft report.

She noted that the Balanced Budget Refinement Act of 1999 precludes HCFA from using its inherent reasonableness authority to change Medicare allowed charges for orthotic body jackets. Appendix B contains the full text of HCFAs comments.

We modified our recommendation to reflect the limitations in HCFAs authority. We are pleased that HCFA agreed to review the appropriateness of allowed charges for orthotic body jackets once they issue their new final rule on its inherent reasonableness authority.